Metro Pacific Investments (MPI PM)

Had a good run

Tender offer attractive

MPI's 1H23 core net income of PHP9.9b (+33%) is ahead of our/consensus FY23 forecasts at 55.0%/60.1% due to the power generation margin-driven outperformance of MER (see <u>Yield play</u> report) and higher-than-expected interest income. Earnings of its other major subsidiaries in toll roads and water were in line with our forecasts. Despite the earnings outperformance, MPI's share price action is limited by the ongoing tender offer, which has been extended to 19 Sep (from 7 Sep). We are of the view minority shareholders should accept the PHP5.20/sh tender offer as the TO price offers decent upside for most shareholders while its assets are also still accessible via MER and GTCAP.

Updates on tender offer

As of 7 Sep, 96.9% of all outstanding shares, including excluded/non-public shares, have participated in the tender offer. This 96.9% already passes the PSE's 95.0% threshold needed for voluntary delisting — a prerequisite set by the Mitsui-led consortium before it would accept the tender offer. Of this, included in the 96.9% are the shares of the government employee pension fund, GSIS, which was reclassified as a non-public investor after boosting its current stake to 12.0% (from 3.3% as of 23 Aug) and hence not part of the pool of minority stakeholders participating in the tender offer. As a non-public investor, GSIS will retain its 12.0% stake post the tender offer, allowing it to continue receiving dividends from MPI. The bidders decided to extend the tender offer period to 19 Sep from 7 Sep, to provide more time for shareholders who did not yet participate in the offer to tender their shares.

Revising up FY23/24E earnings by 9%/2%

Factoring in our higher FY23/24 forecasts for MER, our FY23/24 earnings forecasts for MPI rises by 9%/2% to PHP19.6b/PHP21.2b. This translates to a higher DCF-based TP of PHP6.80 (+3%), reinforcing the potential NAV-accretive impact of the higher stakes in MPI for First Pacific, Mitsui and GTCAP. We have also rolled forward our valuation base to 1H24.

Recommend to participate in extended tender offer

Although the PHP5.20/sh tender offer price is lower than our 12-month forward valuation of MPI, we recommend remaining minority shareholders participate as the TO price offers decent upside for most shareholders while its assets are also still accessible via MER and GTCAP, in our view (see <u>Recommend to participate</u> report). MPI investors may still access the conglomerate's assets post its delisting via MER, which contributes over 73% of estimated MPI's 12-month forward NAV, and via GTCAP, which will remain a major MPI shareholder post its delisting with a 19% stake.

FYE Dec (PHP m)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	43,561	50,882	58,283	68,537	74,290
EBITDA	20,651	24,178	29,815	36,432	41,011
Core net profit	12,065	14,510	19,568	21,243	22,802
Core EPS (PHP)	0.40	0.49	0.68	0.74	0.79
Core EPS growth (%)	33.9	23.8	39.1	8.6	7.3
Net DPS (PHP)	0.11	0.11	0.13	0.13	0.13
Core P/E (x)	9.8	7.0	7.6	7.0	6.5
P/BV (x)	0.6	0.5	0.7	0.6	0.6
Net dividend yield (%)	2.8	3.2	2.4	2.4	2.4
ROAE (%)	2.3	5.3	9.6	9.4	9.4
ROAA (%)	2.0	2.4	3.0	3.0	3.1
EV/EBITDA (x)	17.4	16.4	15.6	13.6	12.2
Net gearing (%) (incl perps)	83.1	102.0	99.8	99.1	90.7
Consensus net profit	-	-	18,019	20,928	22,493
MIBG vs. Consensus (%)	-	-	8.6	1.5	1.4

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BUY

Share Price	PHP 5.20
12m Price Target	PHP 6.80 (+33%)
Previous Price Target	PHP 6.60

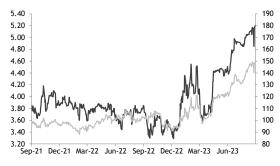
Company Description

MPI is a large infrastructure-focused conglomerate with investments in the biggest electricity distribution and tollway operations in the Philippines.

Statistics

52w high/low (PHP)	5.20/3.29
3m avg turnover (USDm)	5.5
Free float (%)	24.6
Issued shares (m)	28,696
Market capitalisation	PHP149.2B
	USD2.6B
Major shareholders:	
Metro Pacific Holdings Inc	41.9%
GT Capital Holdings Inc	15.5%
Government Service Insurance System	12.0%

Price Performance



	-1M	-3M	-12M
Absolute (%)	4	18	37
Relative to index (%)	7	23	45
Source: FactSet			

Acronyms used: GHG- Greenhouse gas GSIS- Government Service Insurance System MPTC- Metro Pacific Tollways Corp. (Not listed) MWSI- Maynilad Water Services, Inc. PSEi- Philippine Stock Exchange Index TO- Tender offer RP - Regulatory period

Other stocks mentioned:

GT Capital Holdings Inc. (GTCAP PM, CP: PHP590.00, BUY, TP: PHP1,020.00)

First Pacific Co. Ltd. (142 HK, CP: HKD3.17, Not rated) Manila Electric Co. (MER PM, CP: PHP349.20, Buy, TP: PHP387.00)

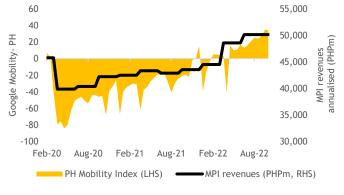
Mitsui & Co Ltd. (8031 JP, CP: JPY5,635.00, Not rated)



Value Proposition

- MPI is an infrastructure-focused holding company which has toll road, rail, water distribution, electricity distribution and healthcare assets. Except for healthcare, all of its assets are subject to regulation by the government.
- The regulated nature of MPI's portfolio ensures returns but it's also exposed to regulatory risk, particularly in 2011-16, when supposedly automatic adjustments to its tariffs were not implemented and in 2019, when its water distribution concession was threatened to be revoked. To minimise this regulatory risk exposure, MPI, through its various subsidiaries, is diversifying into less regulated businesses, such as power generation and agriculture.

Revenues versus mobility data

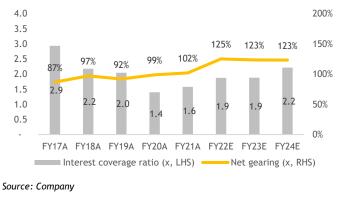


Source: Google, Company

Financial Metrics

- Amid volume growth due to increased mobility and various tariff adjustments, we forecast MPI's FY23/24E core net income to grow by 35%/9% YoY to PHP19.5b/PHP21.2b.
- Biggest earnings growth driver in FY23E should be higher volumes of MER and MPTC and tariff hike of Maynilad.
- We forecast consolidated capex to reach PHP29-47b in FY23-24E, most of which goes to Maynilad. We expect Maynilad to fund its capex via 80%-20% debt-equity, such that MPI's consolidated DE ratio is expected to rise to 1.4x by YE24E.
- Nevertheless, MPI's interest cover should remain adequate at 1.9-2.2x given the expected improvement in MPI's cashflow from improving mobility and tariff adjustments.

Interest cover and net gearing



Price Drivers

Historical share price trend



Source: Company, Maybank IBG Research

- 1. Singapore High Court upholds PHP3.4b arbitral award in favour of Maynilad.
- President Duterte orders review of water concessionaire contracts to omit terms disadvantageous to the government.
- 3. Reduced traffic of toll ways and LRT due to Enhanced Community Quarantine on 17 Mar 2020.
- 4. Maynilad signs revised water concession agreement with the government.
- 5. On May 2022, Toll Regulatory Board grants various pending rate adjustment petitions for CAVITEX (2011/2014 petitions, +29%), NLEX (2016 petitions, +4-12%) and SCTEX (2016 petition, +24%) toll roads.

Swing Factors

Upside

- Approval of MPTC's 2018 and 2022 tariff adjustment petitions pending with the Toll Regulatory Board.
- Finalisation of 5th regulatory period rate rebasing exercise of MER.
- Awarding of new PPP project to toll ways or other infrastructure unit.

Downside

- Further delays on approved and/or upcoming tariff adjustments for water, toll ways, and power distribution.
- Further unexpected revision of existing concessions results in lower project returns.
- Non-renewal of MER's congressional franchise to operate power distribution.

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Risk Rating & Score ¹	11.0
Score Momentum ²	-1.8
Last Updated	22 Mar 2022
Controversy Score ³	2
(Updated: 01 Dec 2022)	

Business Model & Industry Issues

- MPI's core business involves constructing, operating and maintaining infrastructure concessions in partnership with the government, which sets service performance targets as well as tariffs. These concessions offer stable returns to MPI although its infrastructure assets are highly regulated and subject to contentions from both the public and the government.
- MER is in a unique position to aid the DOE in ensuring implementation of the Renewable Portfolio Standard (RPS) which requires mandatory RE sourcing to rise by 2.52% per annum to achieve 35%/50% generation by RE in FY30/40E.
- Maynilad, as the largest water concessionaire by customer base, is required to meet service targets to source and distribute potable water requirements of a growing population within its main franchise area in Metro Manila.
- MPTC's long-standing toll-roads are critical infrastructure to lessen traffic congestion issues and ensure public accessibility to different economic hubs.

The main factors affecting MPI's Sustainalytics Risk Rating & Score are its exposure to potential corporate governance risk and human capital issues, given its high-volume infrastructure operations and regular interaction with regulators. These are managed by assigning responsibility for overseeing ESG issues at the board level and an adequate whistle-blower programme.

Material E issues

- MER's owned operating generation capacity is 98% coal and diesel power plants. However, with the completion of Powersource First Bulacan Solar, MER has taken the first concrete step towards achieving its goal of 1,500MW of renewable energy capacity in the next five to seven years, potentially representing 38% of total generation portfolio (including Atimonan).
- MER intends to secure at least 1,500MW in renewable energy PSAs and develop another 1,500MW RE via MGen.
- In 2021, MER's One for Trees program planted 130,730 trees in Bulancan and Bukidnon. Maynilad planted 12,800 tree saplings in 2021 to reforest the Ipo watershed.
- To address water quality issues, Maynilad runs 22 water treatment facilities as of 2021 which are capable of capable of processing 664,000 cu.m. wastewater per day.

Material S issues

- MPI Foundation launched six advocacy programs to support MSMEs and hold medical missions, among others.
- MPI's workforce, including subsidiaries, is comprised of 31% women. Maynilads' top management endorsed a Gender Diversity and Inclusiveness Policy to hire more females. Meralco also became a pioneer signatory of the United Nation's Women's Empowerment Principles.
- MER electrified 7,509 low-income households, as well as 15 off-grid schools, in 2021 through the One Meralco Foundation.
- MER continues to provide ERC-approved discounted electricity rates to lifeline household customers with a monthly consumption of at most 100kWh. In 2021, these 2.5m customers accounted for 37% of Meralco's residential customer base.

Key G metrics and issues

- MPI's board consists of 15 directors broken down as follows: four executive directors, seven non-independent, non-executive directors and four independent directors. Only one of the 15 board members is female. All board members are Filipino and six have nonfinance/accounting backgrounds.
- MPI's top five key officers received a total of PHP219m in 2021. This accounted for 2% of FY21A core net income and 4% of total salaries paid in the year.
- For FY23E, MPI's board of directors has approved a ESGlinked short term incentive plan wherein managements' base compensation is penalised or increased by at most 10% depending on whether ESG targets are met.
- SyCip Gorres Velayo & Co (SGV & Co), a member practice of Ernst & Young Global Limited, is the auditor of MPI. Audit fees in FY21 were PHP30.3m, accounting for less than 1% of pre-tax profits.
- MER has PSAs with affiliated power plants such as the San Buenaventura power plant and the Powersource First Bulacan Solar power plant. The Atimonan power plant also participated in the company's Competitive Selection Process and intends to participate as well in the next round. We note however that the approval of the PSAs are all regulated by the ERC.
- MPI discloses and reports its various related party transactions between its subsidiaries and even with affiliate companies such as TEL and DMC. However, total related party transaction revenues in 2021 amounted to just PHP376m or 0.9% of reported revenues.

<u>Raisk Rating & Score</u> - derived by Sustainalytics and assesses the company's exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company's enterprise value, respectively, from ESG-driven financial impacts. <u>Score</u> <u>Momentum</u> - indicates changes to the company's score since the last update - a <u>negative</u> integer indicates a company's improving risk score; a <u>positive</u> integer indicates a deterioration. <u>Controversy Score</u> - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

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	Quantitative Parameters (Score: 6)									
	Particulars	Unit	2020	2021	2022	MER				
	Scope 1 GHG emissions	m tCO2e	4.14	4.78	3.87	6.54				
	Scope 2 GHG emissions	m tCO2e	1.04	1.06	1.10	2.05				
	Total	m tCO2e	5.18	5.84	4.97	8.59				
	Scope 3 GHG emissions	m tCO2e	14.74	15.59	16.76	30.22				
	Total	m tCO2e	19.92	21.42	21.73	38.81				
	GHG intensity (Scope 1 and 2)	tCO2e/t	NA	NA	NA	0.8				
E	Energy intensity	GJ/ton	NA	0.0%	0.1%	1%				
	Share of renewable energy use in operations	%	NA	NA	NA	NA				
	Wastewater discharge (chemical O2 demand)	tonnes	NA	NA	NA	1%				
	Hazardous waste 3R rate	%	NA	NA	NA	28.4%				
	Air emissions intensity	ton/kT	NA	NA	NA	0.0%				
	NPE (New Plastic Economy) investments	MYR m	NA	NA	0	NA				
	Cases of environmental non-compliance	number	4.14	4.78	3.87	6.54				
	% of women in workforce	%	26.9%	31.3%	29.4%	25.5%				
	% of women in management roles	/8 %	20.9% NA	NA	NA	20.4%				
S	Lost time injury frequency (LTIF) rate	number	NA	NA	NA	0.60				
	Lives impacted by CSR outreach ('000)	number	112,386	14,291	212,645	NA				
	lives impacted by esk outreach (000)	number	112,500	17,271	212,045	NA NA				
	MD/CEO salary as % of reported net profit	%	4.9%	1.8%	1.5%	1.0%				
G	Board salary as % of reported net profit	%	NA	NA	NA	NA				
G	Independent directors on the Board	%	20%	20%	20%	33%				
	Female directors on the Board	%	13%	7%	7%	18%				
	Ouali	tative Parameter	s (Score: 100)	1						

a) Is there an ESG policy in place and is there a standalone ESG committee or is it part of the risk committee? Yes - as of FY22, its board of directors has oversight over climate-related risks and opportunities, via the group's risk management committee, which are harmonised by the conglomerate's Sustainability Council. Key performance indicators include recycling 10% of waste generated, 5% reduction in GHG emissions, and protecting over 20 hectares of forest cover.

b) is the senior management salary linked to fulfilling ESG targets?

Yes - in FY22, MPI continued to implement an ESG-linked short-term incentive plan (STIP) which reflects its strategy and incorporates performance metrics with sustainability-related goals.

c) Does the company follow the task force of climate related disclosures (TCFD) framework for ESG reporting? Yes

e) Does the company have a mechanism to capture Scope 3 emissions - which parameters are captured?

Yes. Emissions from the group's supply chain and from its employees' personal vehicles.

f) What are the 2-3 key carbon mitigation/water/waste management strategies adopted by the company?

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Implemented net metering programme, One for Trees programme planted 111,000 trees since 2019, Race to Zero Waste Programme. g) Does carbon offset form part of the net zero/carbon neutrality target of the company?

Yes- MER plans decarbonization of its existing assets through carbon capture utilization and storage, further reduction of its system loss, and deployment of nature-based carbon offset solutions, such as reforestation and soil management.

			Tau	at (Saaraa 100)		
			lar	et (Score: 100) Target Achieved		
Particulars	'articulars					
MER DU to do 1.5	NER DU to do 1.5GW additional RE sourcing by 2027-2029					
1.5GW RE genera	tion by MER's	Mgen betwo	een 2027-2029	1,500 198		
Reduce projected	l Scope 1+2 er	nissions vs	business as usual	of 21 MtCO2e) by 2030 15.4 5.0		
Increase renewab	le energy mix	to 30% of t	total energy mix	f MPI. 30% 1%		
Increase waste di	version rate t	o 35%.	0,	35.0% 0.1%		
				Impact		
				ŇA		
			Ov	erall Score: 53		
As per our ESG m	atrix, Metro P	acific Inves		has an overall score of 53.		
ESG score	Weights	Scores	Final Score	As per our ESG assessment, MPI has an established framework,		
Quantitative	50%	6	3	internal policies, and tangible mid/long-term targets but may		
Qualitative	25%	100	25	improve its quantitative "E" metrics YoY and have more		
Target	25%	100	25	encompassing groupwide targets. MPI's overall ESG score is 53 which makes its ESG rating above average in our view (average ESG		

rating = 50).

Total

1. 1H23 net income ahead of our estimate

MPI reported 2Q23/1H23 net income of PHP5.2b/PHP10.2b (+37%/8% YoY). Excluding non-recurring FX gains/other items, 1H23 core net income was PHP9.9b (+33% YoY), ahead of our/consensus FY23 forecasts at 55.0%/60.1%. The beat was due to the higher-than-expected earnings of MER. See <u>Yield play</u> report for more details.

Fig 1:	1H23	earnings	review
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PHP m	2Q23	2Q22	% YoY	1Q23	% QoQ	1H23	1H22	% YoY	MIBG FY23E	% of FY23E
Revenue	15,232.0	13,155.0	15.8	14,142.0	7.7	29,374.0	24,287.0	20.9	58,283.2	50.4
Cost of sales	(5,437.0)	(5,614.0)	(3.2)	(5,516.0)	(1.4)	(10,953.0)	(10,306.0)	6.3	(23,681.8)	46.3
Gross income	9,795.0	7,541.0	29.9	8,626.0	13.6	18,421.0	13,981.0	31.8	34,601.4	53.2
GP margin	64.3	57.3		61.0		62.7	57.6		59.4	
Operating expenses	(3,439.0)	(2,664.0)	29.1	(2,665.0)	29.0	(6,104.0)	(4,936.0)	23.7	(10,173.6)	60.0
EBIT	6,356.0	4,877.0	30.3	5,961.0	6.6	12,317.0	9,045.0	36.2	24,427.8	50.4
EBIT margin	41.7	37.1		42.2		41.9	37.2		41.9	
Interest income	449.0	209.0	114.8	496.0	(9.5)	945.0	380.0	148.7	970.5	97.4
Interest expense	(3,258.0)	(2,359.0)	38.1	(3,169.0)	2.8	(6,427.0)	(4,681.0)	37.3	(13,008.2)	49.4
Equity income	4,691.0	3,630.0	29.2	3,851.0	21.8	8,542.0	6,233.0	37.0	16,159.4	52.9
Others - net	(155.0)	(114.0)	36.0	678.0	(122.9)	523.0	2,908.0	(82.0)	678.0	77.1
Income before tax	8,083.0	6,243.0	29.5	7,817.0	3.4	15,900.0	13,885.0	14.5	29,227.5	54.4
Income tax	(1,395.0)	(1,249.0)	11.7	(1,371.0)	1.8	(2,766.0)	(2,312.0)	19.6	(5,126.1)	54.0
Net income	6,688.0	4,994.0	33.9	6,446.0	3.8	13,134.0	11,573.0	13.5	24,101.4	54.5
Net income margin	43.9	38.0		45.6		44.7	47.7		41.4	
Minority Interest	(1,467.0)	(1,177.0)	24.6	(1,449.0)	1.2	(2,916.0)	(2,078.0)	40.3	(5,417.8)	53.8
Net income to common	5,221.0	3,817.0	36.8	4,997.0	4.5	10,218.0	9,495.0	7.6	18,683.6	54.7
Non-recurring items	359.0	511.0	na	(675.0)	(153.2)	(316.0)	(2,035.0)	na	665.0	
Core Net Income	5,580.0	4,328.0	28.9	4,322.0	29.1	9,902.0	7,460.0	32.7	18,018.6	55.0

Source: Company, Maybank IBG Research

Fig 2: Average daily traffic ('000) - MPTC

	1H23A	1H22A	% ch
Philippines only	646.3	567.2	14%
NLEX	336.0	301.2	12%
SCTEX	80.9	71.2	14%
CAVITEX	182.1	161.3	13%
CALAX	34.7	26.4	31%
CCLEX	12.5	7.1	77%
International only	558.6	327.2	71%
PT Nusantara (Indonesia)	480.6	255.5	88%
CII B&R (Vietnam)	78.0	71.7	9 %
Total	1,204.9	894.4	35%

Source: Company

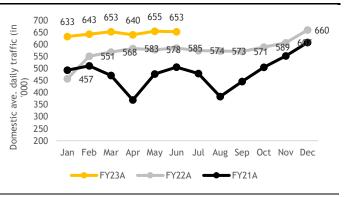
Note: Figures present data from both open and closed system roads

Fig 4: MWSI billed water volume (m. cubic metres)

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	1H23A	1H22A	% ch
Residential	197.1	197.8	0%
Semi-business	19.5	18.0	8%
Commercial	35.4	31.2	13%
Industrial	13.1	12.5	5%
Total	265.1	259.5	2%

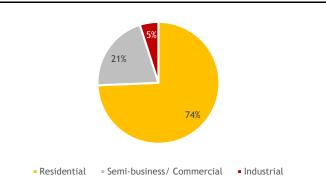
Source: Company

Fig 3: Monthly domestic traffic trend - MPTC



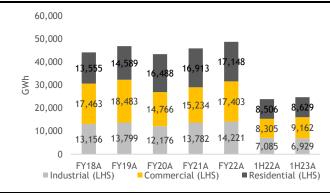
Source: Company

Fig 5: MWSI water volume mix (% of 1H23 volume)



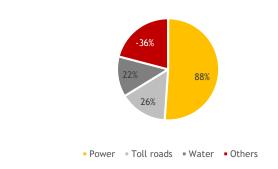
Source: Company

Fig 6: MER electricity distribution sales (GWh)



Source: Company

Fig 7: MPI net income mix (% of consolidated 1H23)



Source: Company

Consolidated revenue in 1H23 grew 21% YoY to PHP29.4b, in line with our FY23E forecast of PHP58.3b. Both revenue from toll operations (PHP13.0b, +24% YoY) and water utility arm Maynilad (PHP13.3b, +19% YoY; Unlisted) were in line with our FY23 forecast at 49.1% and 48.1%, respectively:

- Net income contribution from **toll roads** (27% of total income) reached PHP2.7b (+7% YoY), in line with our FY23 forecast at 48.3%.
 - 1H23 revenue from toll roads grew 24% YoY as a result of: (i) 14% YoY growth in average daily vehicle entries to 646,336; and (ii) full impact of the tariff increases in NLEX, CAVITEX and SCTEX toll roads implemented in 2Q22.
 - 1H23 EBITDA rose by 26% YoY to PHP9.3b while EBITDA margin improved by 1.3ppts to 71.7% due to the toll rate hikes.
- Net income contribution from Maynilad (23% of 1H23 net income) grew 56% YoY to PHP2.3b, slightly ahead of our forecast, at 52% of FY23E.
 - 1H23 revenue from Maynilad grew 19% YoY to PHP13.3b, due to the implementation of tariff increases approved by the MWSS in Nov'22 as well as higher billed water volume.
 - Billed water in 1H23 rose 2% YoY to 265.0m cubic m, in line with our FY23 volume forecast of 532.6m cubic m at 49.8%, driven by commercial (+13% YoY) and semi-business (+8% YoY) establishments while residential volumes were flat YoY.
 - Segment EBITDA rose 11% YoY to PHP8.4b, with EBITDA margin contracting by 4.6ppts to 62.8%.

2. Revising up FY23/24E earnings by 9%/2%

We revise up our FY23/24 net income forecasts by 9%/2%, respectively, largely to factor in the uplift from us raising our MER earnings forecasts by 11%/6% to factor in higher-than-expected margins of its power generation business. We also increase FY23/24 interest income forecasts by 75%/37% to factor in the higher-than-expected interest rates secured for its cash placements/investments in 1H23.

We make no changes to our FY23/24E forecasts for toll roads and water.

Fig 8: Summary of forecast changes

PHPm	FY23E old	FY23E new	% ch	FY24E old	FY24E new	% ch	Notes
Revenue	58,283	58,283	0.0%	68,537	68,537	0.0%	
Toll operations	26,539	26,539	0.0%	30,406	30,406	0.0%	
Toll roads ave. tariff (PHP/entry)	63.5	63.5	0.0%	66.8	66.8	0.0%	
Ave. daily entries ('000 vehicles)					531,78		
Ave. duity entries (000 venicies)	478,127	478,127	0.0%	531,783	.3	0.0%	
Ave. km- closed (in '000 km travelled)	0.50/	0 501	0.00/			0.00/	
	8,581	8,581	0.0%	9,010	9,010	0.0%	
Water	27,660	27,660	0.0%	33,171	33,171	0.0%	
Ave. tariff (PHP/cu.m)	47.90	47.90	0.0%	57.39	57.39	0.0%	
Billed water volume (m cu.m)	533	533	-0.1%	538	538	0.0%	
Rail	2,667	2,667	0.0%	3,543	3,543	0.0%	
Others	1,417	1,417	0.0%	3,545 1,417	3,543 1,417	0.0%	
Cost Of Sales and Services	-23,682	-23,682	0.0%	-27,043	-27,043	0.0%	
Gross profit	34,601	34,601	0.0%	41,494	41,494	0.0%	
Gross margin	59.4%	59.4%	0.070	60.5%	60.5%	0.070	
Operating expenses	-10,174	-10,174	0.0%	-10,796	-10,796	0.0%	
EBIT	24,428	24,428	0.0%	30,698	30,698	0.0%	
EBIT margin	41.9%	41.9%	0.0/0	44.8%	44.8%	0.0/0	
Interest exp.	-13,008	-13,008	0.0%	-13,875	-13,875	0.0%	
Interest income	970	1,697	74.9%	760	1,044	37.4%	Higher effective FY23/24E interest
		,			,		rate of 4.0%/3.1% (from previous
							2.3%/2.3%) due to higher yielding cash
							placements.
Fouritries of income	44 450	47 200	(1 0/	45 420	45 227	0 (0/	Devisions reflect unreaded comises of
Equitised income	16,159	17,200	6.4%	15,139	15,237	0.6%	Revisions reflect upgraded earnings of MER. See Yield play report.
Impairment exp./reversal	0	0		0	0		ment see <u>new pluy</u> report.
Others	678	678	0.0%	678	678	0.0%	
Pre-tax income	29,227	30,995	6.0%	33,400	33,781	1.1%	
Income tax exp.	-5,126	-5,436	6.0%	-6,403	-6,476	1.1%	FY23/24E reflects 1Q23 ETR/average
							ETR across FY21-23E.
Eff. tax rate	-17.5%	-17.5%	0.2%	-19.2%	-19.2%	-0.2%	
Net income	24,101	25,559	6.0%	26,997	27,305	1.1%	
To minority	-5,418	-5,675	4.7%	-6,069	-6,062	-0.1%	
Net income to c.shs	18,684	19,884	6.4%	20,928	21,243	1.5%	
Non-rec. items, pref. divs Core net income	-674	-325 19,559	-51.8%	-9	-9	0.0%	
	18,010		8.6%	20,919	21,234		

Source: Company, Maybank IBG Research

3. Raising TP to PHP6.80; recommend to participate in tender offer

We raise our FY23/24 net income forecasts and also roll forward our DCF valuation base for toll roads and water to 1H24, resulting in our higher 12-month forward TP of PHP6.80 (+3%).

Fig 9	: TP	calculation	for MPI
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Segment	Stake	Sh. OS (m)	Current price (PHP/sh)	Att. NAV (PHPm)	Valuation method	TP (PHP/sh)	Att. NAV (PHPm)	TP (PHP/sh)	Att. NAV (PHPm)	% ch	Notes
MER PM	47.5%	1,127.1	349.2	186,794	DCF	381.00	203,805	387.00	207,014	2%	See <u>Yield play</u> report.
MPTC	99.9 %			113,690	DCF		107,741		113,690	6 %	Roll forward DCF base to 1H24.
Water	52.9%			21,204	DCF		19,855		21,204	7%	Roll forward DCF base to 1H24.
Health	20.0%			3,429	Carrying value		3,429		3,429	0%	
Others	Various			12,318	Book value		12,318		12,318	0%	
Asset Value				337,436			347,147		357,656	3%	
Net debt				(75,800)			(77,388)		(77,388)	0	
NAV				261,636			269,759		280,267	4%	
NAV/sh				9.12			9.40		9.77	4%	
Conglo discount				43%			30%		30%		
ТР							6.60		6.80	4%	

Source: Company, Maybank IBG Research

MPI has had a good run up this year as its stock price has appreciated by 51% YTD, making it the best performing stock on the PSEi to date, largely driven by news of the Mitsui consortium's tender offer price of PHP5.20 (See <u>Recommend to participate</u> report). We expect MPI should continue to range trade near this tender offer price until the end of its ongoing tender offer by 19 Sep (extended from 7 Sep).

As of 7 Sep, 96.9% of all outstanding shares, including excluded/non-public shares, have participated in the tender offer (See <u>amended tender offer</u> <u>report</u>). This 96.9% already passes the PSE's threshold for voluntary delisting – a prerequisite set by the Mitsui-led consortium before it would accept the tender offer.

Of this, included in the 96.9% are the shares of the government employee pension fund, GSIS, which was reclassified as a non-public investor after boosting its current stake to 12.0% (from 3.3% as of 23 Aug) and hence not part of the pool of minority stakeholders participating in the tender offer. As a non-public investor, GSIS will retain its 12.0% stake post the tender offer, allowing it to continue receiving dividends from MPI. The bidders decided to extend the tender offer period to 19 Sep, from 7 Sep, to provide more time for shareholders who did not yet participate in the offer to tender their shares.

The tendered shares will be crossed and have their settlement dates on 26 Sep and 28 Sep, respectively, and MPI will be effectively delisted by 9 Oct.

Fig 10: Summary of ownership impact of tender offer

Ownership	Before delisting - As of 9 Aug	Before delisting - as of 7 Sep*	Post-delisting	ppts change post delisting (since 7 Sep)
First Pacific (Metro Pacific Holdings)	46.1%	46.1%	48.9%	2.8%
GT Capital	17.1%	17.1%	19.1%	2.0%
MPI management	0.1%	0.0%	0.0%	0.0%
GSIS*	3.3%	12.0%	12.0%	0.0%
Free float (ex-GSIS)	33.4%	24.8%	0.0%	-24.8%
MIG	0.0%	0.1%	7.2%	7.1%
MPIH JV (Mitsui 50.01%, JOIN 50%-1)	0.0%	0.0%	13.0%	13.0%
	100.0%	100.0%	100.0%	
	Before delisting	Before delisting	Post-delisting	ch. in shares post
	- As of 9 Aug	- as of 7 Sep		delisting (since 7 Sep)
First Pacific (Metro Pacific Holdings)	13,223	13,223	14,018	795
GT Capital	4,900	4,900	5,469	569
MPI management	32	-	-	0
GSIS	948	3,439	3,439	0
Free float*	9,593	7,134	-	-7,134
MIG	-	32	2,061	2,030
MPIH JV (Mitsui 50.01%, JOIN 50%-1)	-	-	3,740	3,740
Mitsui	-	-	1,870	1,870
JOIN	-	-	1,870	1,870

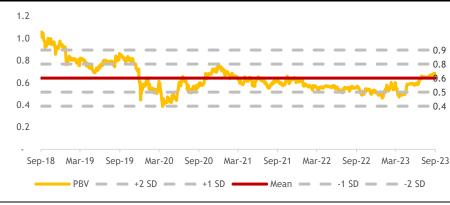
Source: Company, Maybank IBG Research

Note: Change between 9 Aug to 7 Sep reflects reclassification of GSIS shares to non-public. Computation assumes all outstanding minority shareholders participate in TO and allocation of TO shares to bidders reflecting the breakdown stipulated in the amended tender offer report (First Pacific- 11.15%; GTCAP- 7.98%; MIG-28.45%; MPIH-52.42%).

We still recommend that minority investors participate in the extended tender offer (See <u>Recommend to participate</u> report), which will run until 19 Sep, if they have not already done so. The PHP5.20/sh tender offer price should already pose decent upside for most investors, which may have mostly entered in 2020.

We also think investors can still access MPI's assets post its delisting via MER, which we estimate contributes over 73% of MPI's 12-month forward NAV, and via GTCAP, which will remain a shareholder of MPI post its delisting with up to a 19% stake (from current 17.1%).

Fig 11: MPI's 5-year PBV band



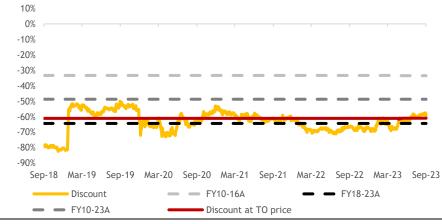
As the regulatory overhang on Maynilad and MPTC has significantly eased, the awarding of tariff adjustments for both units last year, and progress on the resolution of MER's 5th RP, we believe MPI remains undervalued.

MPI's rally due to the tender offer has brought its FY23E PBV higher to 0.7x.

Source: Bloomberg, Maybank IBG Research

MPI is also trading at 43% discount to RNAV, wider than its FY10A-16E average of 33%.

Fig 12: RNAV discount- MPI



Source: Bloomberg, Maybank IBG Research

Fig 13: Peer comparison (as of 8 Sep 2023)

Company	Ticker	СР	ТР	Upside	Rec.	EPSg (%)		PER (x)		ROE (%)		Div Yld (%)
		(PHP)	(PHP)	(%)		FY23E	FY24E	FY23E	FY24E	FY23E	FY24E	FY24E
Median						36.2	8.6	1.0	0.9	11.3	11.9	1.1
Ayala Corp.	AC PM	624.00	990.00	58.7	BUY	38.8	17.6	1.0	0.9	10.5	11.1	1.1
DMCI Holdings	DMC PM	10.14	12.10	19.3	BUY	-2.5	-10.0	1.1	0.9	24.4	19.2	6.9
GT Capital	GTCAP PM	590.00	1,020.00	72.9	BUY	66.9	18.6	0.6	0.5	11.3	11.9	1.0
JG Summit	JGS PM	39.10	57.00	45.8	BUY	-	-5.0	0.9	0.8	5.8	5.2	1.0
Metro Pacific Inc	MPI PM	5.16	6.80	31.8	BUY	39.1	8.6	0.7	0.6	9.6	9.4	2.4
SM Investments	SM PM	824.00	1,290.00	56.6	BUY	25.6	14.0	1.8	1.5	13.7	13.6	0.8
Manila Electric	MER PM	349.20	387.00	10.8	BUY	33.6	-12.7	3.2	3.0	29.2	24.1	6.1

Source: Company, Maybank IBG Research

FYE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25
Key Metrics					
P/E (reported) (x)	27.4	10.4	7.5	7.0	6.
Core P/E (x)	9.8	7.0	7.6	7.0	6.
P/BV (x)	0.6	0.5	0.7	0.6	0.
P/NTA (x)	0.6	0.5	0.7	0.6	0.
Net dividend yield (%)	2.8	3.2	2.4	2.4	2.
FCF yield (%)	nm	nm	nm	nm	5.
EV/EBITDA (x)	17.4	16.4	15.6	13.6	12.
EV/EBIT (x)	24.7	20.5	19.1	16.1	14.
INCOME STATEMENT (PHP m)					
Revenue	43,561.0	50,882.0	58,283.2	68,537.2	74,290.
EBITDA	20,651.0	24,178.0	29,815.0	36,431.5	41,011.
Depreciation	(1,341.0)	(1,138.0)	(1,407.7)	(1,591.9)	(1,776.0
Amortisation	(5,930.0)	(4,602.0)	(5,095.6)	(5,400.8)	(6,035.3
EBIT	14,550.0	19,332.0	24,427.8	30,697.7	34,627.
Net interest income /(exp)	(8,485.0)	(9,172.0)	(11,311.3)	(12,831.4)	(12,685.4
Associates & JV	10,302.0	14,210.0	17,200.5	15,237.0	13,641.
	,	-			
Exceptionals Other protax income	0.0	0.0	0.0 678 0	0.0 678.0	0. 678.
Other pretax income	(9,181.0)	(7,429.0)	678.0		
Pretax profit	7,186.0	16,941.0	30,994.9	33,781.4	36,261.
Income tax	(1,259.0)	(3,804.0)	(5,436.1)	(6,476.3)	(6,951.7
Minorities	(1,550.0)	(2,642.0)	(5,674.5)	(6,062.3)	(6,507.3
Discontinued operations	5,742.0	0.0	0.0	0.0	0.
Reported net profit	4,377.0	10,495.0	19,884.3	21,242.9	22,802.
Core net profit	12,064.5	14,510.0	19,568.3	21,242.9	22,802.
Preferred Dividends	(9.0)	(9.0)	(9.0)	(9.0)	(9.0
Distributable Income	12,055.5	14,501.0	19,559.3	21,233.9	22,793.
BALANCE SHEET (PHP m)					
Cash & Short Term Investments	49,570.0	42,422.0	33,206.2	38,400.9	52,020.
Accounts receivable	8,272.0	9,195.0	10,532.5	12,385.5	13,425.
Inventory	998.0	1,139.0	1,361.1	1,554.3	1,629.
Property, Plant & Equip (net)	6,763.0	6,904.0	8,131.6	8,539.8	8,763.
Intangible assets	15,578.0	15,618.0	15,618.0	15,618.0	15,618.
Investment in Associates & JVs	169,681.0	196,323.0	212,712.6	217,435.6	221,619.
Other assets	333,472.0	372,195.0	393,138.3	432,632.2	452,359.
Total assets	584,334.0	643,796.0	674,700.3	726,566.1	765,435.
		•		-	
ST interest bearing debt	11,649.0	20,842.0	20,842.0	20,842.0	20,842.
Accounts payable	7,369.0	8,626.0	10,307.7	11,770.9	12,337.
LT interest bearing debt	234,693.0	271,625.0	278,913.4	305,635.6	318,254.
Other liabilities	93,758.0	97,662.0	97,662.0	97,662.0	97,662.
Total Liabilities	347,469.0	398,755.0	407,725.2	435,910.6	449,095.
Shareholders Equity	193,304.0	200,088.0	216,347.6	233,965.8	253,143.
Minority Interest	43,561.0	44,953.0	50,627.5	56,689.8	63,197.
Total shareholder equity	236,865.0	245,041.0	266,975.1	290,655.6	316,340.
Total liabilities and equity	584,334.0	643,796.0	674,700.3	726,566.1	765,435.
CASH FLOW (PHP m)					
Pretax profit	7,186.0	16,941.0	30,994.9	33,781.4	36,261.
Depreciation & amortisation	6,101.0	4,846.0	5,387.2	5,733.8	6,384
Adj net interest (income)/exp	8,855.0	9,810.0	13,008.2	13,875.3	13,563
Change in working capital	(577.0)	(1,231.0)	122.2	(583.1)	(548.
Cash taxes paid	(3,128.0)	(3,988.0)	(5,436.1)	(6,476.3)	(6,951.)
Other operating cash flow	322.0	(2,118.0)	(12,104.9)	(9,836.2)	(7,606.4
Cash flow from operations	19,533.0	20,552.0	27,992.1	32,353.0	36,495
Capex	(37,148.0)	(41,462.0)	(28,674.3)	(46,894.7)	(27,763.
Free cash flow	(17,615.0)	(20,910.0)	(682.2)	(14,541.6)	8,731
Dividends paid	(3,392.0)	(3,278.0)	(3,624.7)	(3,624.7)	(3,624.)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.
Change in Debt	14,386.0	45,606.0	7,288.4	26,722.2	12,618
Other invest/financing cash flow	3,285.0	(32,681.0)	(3,370.4)	(3,361.2)	(4,105.8
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.
Effect of exeriface changes	(3,336.0)	0.0	010	010	



FYE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Key Ratios					
Growth ratios (%)					
Revenue growth	6.6	16.8	14.5	17.6	8.4
EBITDA growth	5.8	17.1	23.3	22.2	12.6
EBIT growth	4.0	32.9	26.4	25.7	12.8
Pretax growth	(31.9)	135.8	83.0	9.0	7.3
Reported net profit growth	232.1	139.8	89.5	6.8	7.3
Core net profit growth	30.5	20.3	34.9	8.6	7.3
Profitability ratios (%)					
EBITDA margin	47.4	47.5	51.2	53.2	55.2
EBIT margin	33.4	38.0	41.9	44.8	46.6
Pretax profit margin	16.5	33.3	53.2	49.3	48.8
Payout ratio	77.2	31.2	18.2	17.0	15.9
DuPont analysis					
Net profit margin (%)	10.0	20.6	34.1	31.0	30.7
Revenue/Assets (x)	0.1	0.1	0.1	0.1	0.1
Assets/Equity (x)	3.0	3.2	3.1	3.1	3.0
ROAE (%)	2.3	5.3	9.6	9.4	9.4
ROAA (%)	2.0	2.4	3.0	3.0	3.1
Liquidity & Efficiency					
Cash conversion cycle	(33.7)	(58.6)	(58.4)	(61.7)	(64.0)
Days receivable outstanding	68.2	61.8	60.9	60.2	62.5
Days inventory outstanding	17.1	18.6	18.1	18.5	19.2
Days payables outstanding	119.0	139.0	137.4	140.4	145.8
Dividend cover (x)	1.3	3.2	5.5	5.9	6.3
Current ratio (x)	1.2	0.9	0.8	0.9	1.0
Leverage & Expense Analysis					
Asset/Liability (x)	1.7	1.6	1.7	1.7	1.7
Net gearing (%) (incl perps)	83.1	102.0	99.8	99.1	90.7
Net gearing (%) (excl. perps)	83.1	102.0	99.8	99.1	90.7
Net interest cover (x)	1.7	2.1	2.2	2.4	2.7
Debt/EBITDA (x)	11.9	12.1	10.1	9.0	8.3
Capex/revenue (%)	85.3	81.5	49.2	68.4	37.4
Net debt/ (net cash)	196,772.0	250,045.0	266,549.2	288,076.8	287,075.3

Source: Company; Maybank IBG Research

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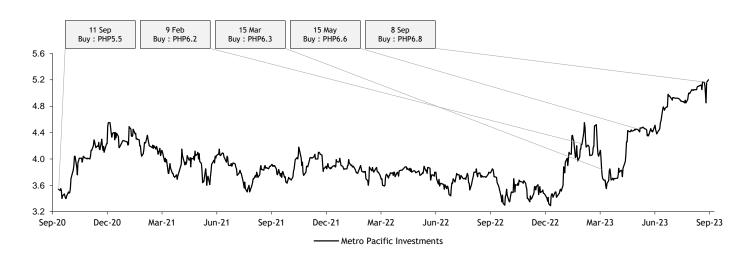
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